

REACH – Addressing the Racial Homeownership Gap

MassHousing

Legislative Advocacy: State Advocacy

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Background/Need

For households in both the Commonwealth and throughout the country, homeownership continues to be a vehicle for building wealth and in turn, a key part of the American Dream. Homeownership is particularly important for minority households, as home equity is more likely to be their only source of wealth creation. Wealth allows households to make investments in their education, health, employment, and intergenerational wealth. Regionally, economic growth would increase if wealth were distributed more evenly. Furthermore, parental wealth is also an important determinant in establishing a household's ability to become homeowners and maintain that asset. Beyond financial motivations, owning a home has social benefits as well. Studies have shown that homeownership improves residential stability, increases social capital, and supports neighborhood cohesion.

Non-White households are less likely to become homeowners and take advantage of its associated economic and social benefits. Moreover, households of color are more likely to be targets of predatory loans, as evidenced by the disproportional effects of the subprime mortgage crisis where Black households were twice as likely to be targets of subprime mortgages than White households. As of 2018, a White household in Massachusetts was twice as likely to own a home than one of color, the sixth highest disparity rate in the country. This disparity negatively impacts non-White households' wealth and has extensive social and economic repercussions. As the COVID-19 pandemic wreaks havoc on local economies, more households are at risk of being unable to pay their rent or mortgage. Research now shows that households of color and those that are low-income are being disproportionately affected by the pandemic's health and economic effects.

Unfortunately, these troubling statistics are well-known to MassHousing and the Agency wanted to begin addressing this issue. In December 2018, MassHousing invited nine other agencies to join an Advisory Committee to generate ideas about how to reduce the racial homeownership gap in Massachusetts. This group, named REACH (the Racial Equity Advisory Council for Homeownership), consists of a broad range of housing stakeholders including state officials, community developers, advocacy groups and academics.

REACH established a well-defined goal of narrowing the racial homeownership gap in the Commonwealth and supporting sustainable homeownership for households of color through ongoing research of effective strategies, their implementation, and evaluation.

Importantly, REACH acknowledges that while its intent is to promote sustainable homeownership, buying a home is not appropriate for all households. Nevertheless, homeownership should be attainable for households that are home ready, regardless of their race or ethnicity.

Implementing the strategies recommended in this report can bring the Commonwealth one step closer to narrowing the racial homeownership gap. REACH remains committed to the long-term oversight of these and future strategies to increase non-White homeownership in Massachusetts.

Innovation

REACH produced four initial strategies recommended for narrowing the racial homeownership gap in the Commonwealth over the next ten years. These strategies were chosen based on their impact, efficiency, and potential feasibility for implementation quickly. The strategies were a product of a six-month iterative data-gathering and fact-finding process, including better targeting of MassHousing and other state mortgage products, a rental to homeownership pilot through the Family Self Sufficiency Program, a Down Payment Assistance and Interest Rate Buy Down program, and options for borrowers with student loan debt.

The work of REACH was collaborative and progressive and MassHousing began to meet with members of the State Legislature’s Black and Latino Caucus to discuss the group’s work and its goals. At the same time, REACH’s work – through MassHousing’s Executive Director and the Undersecretary of Housing and Community Development – reached the attention of the Governor.

Fortuitously, the Governor asked MassHousing’s Executive Director to participate in a closed-door meeting with him and the members of the Black and Latino Caucus to discuss housing challenges in communities of color. One of the specific discussions the caucus wanted to address with the Governor was the state’s investment in creating affordable rental housing without any complementary investment in creating affordable homeownership opportunities, particularly in communities of color.

The Governor was interested in this line of thinking – and asked Chrystal Kornegay, MassHousing’s Executive Director and former Undersecretary for Housing and Community Development under Governor Baker, for her perspective on why the state’s housing funding system did not provide for enough homeownership units at affordable acquisition costs. This led to a far-reaching conversation about state housing policy, both supply-side and demand-side.

MassHousing had subsequent calls with the Governor’s office to elaborate on these ideas and help to develop new ways of thinking about this challenge. Within a month – Governor Baker approached MassHousing with a plan to recapitalize the Agency’s successful Opportunity Fund (which finances workforce rental housing units) with \$86 million in state funds -- \$60 million of which would be targeted specifically for the *production* of affordable homeownership units specifically in communities of color.

This was how MassHousing’s new Commonwealth Builder Program was born. This program, to be administered by MassHousing, seeks to incentivize investment in urban areas and areas that have historically lacked high-quality new development, particularly communities of color.

MassHousing’s new program seeks to spur the market to deliver up to 500 new homeownership opportunities for moderate-income households and by engaging the market to create workforce homeownership opportunities in communities of color this program aims to address the state’s racial homeownership gap, promote community investment, and build intergenerational wealth. Specifically, the funds will subsidize the purchase price of these new units for households earning between 70% - 120% of the Area Median Income (AMI) and buy down the cost of each unit by \$150,000.

One of the Governor’s imperatives was that MassHousing commit to its ability to develop the specific guidelines of the program and have it up and running quickly, which we did. After the Governor’s

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allocation of \$60 million to MassHousing’s new program, we undertook a coordinated lobbying campaign to secure an additional \$2.5 million from the State’s FY 2019 supplemental budget to support MassHousing’s down payment assistance program, particularly to complement the Commonwealth Builder program. MassHousing’s Executive Director and Government Affairs team continued to meet with members of the Black and Latino Caucus and specifically with members of the House and Senate Ways and Means Committees to outline our vision for the new program and increased opportunities for borrowers of color.

This funding was ultimately approved and created MassHousing’s Workforce Advantage Program which provides down payment assistance up to 3% of the purchase price, or \$15,000, whichever is less, and an affordable fixed-rate mortgage for lower-income first-time homebuyers in Boston and the Commonwealth’s Gateway Cities. Borrowers also receive discounted MassHousing Mortgage Insurance with the Agency’s MI Plus job loss protection for its loans and financing may include renovation or energy efficiency improvements.

The work of REACH helped to bring together a large and diverse group of housing stakeholders and synthesize a cohesive message around the need for new housing opportunities for people of color. Its coordinated focus on the issue coupled with hard research and effective lobbying has brought the potential for real change in Massachusetts for these borrowers.